Sound Public Policy Should Dictate the Methodology Used to Balance the Rate-of-Return Model Budget

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Model Elector Assumptions Do Not Meaningfully Change the Outcomes

- Our model elector assumptions:
  - Alaska companies donôt elect the model
  - Base Caseð Companies will elect the model if they receive 1.25 times more under the model
  - Conservative Caseð Companies will elect the model if they receive 2 times more under the model
- Companies whose model support is between 75% and 99% of their legacy support would contribute little to the budget
  - After transitions are considered, these companies contribute only about $11 M per year to the budget

There Are Various Ways to Address Model Oversubscription

- The Order states that the per location funding cap will be decreased to meet the budget, but other methods may be considered
- The following assumptions will be used in our analyses:

	1.25 Times	2.0 Times
Funding Cap per Location	$79	$102
Companies Electing the Model	188	133
Locations with a Build-Out Requirement	420 K	254 K
Reasonable Request Locations	117 K	72 K

- The Public Notice proposed ñInvoluntary Disqualificationsò to meet the budget:
  - Maximum 10/1 M Buildout Percentage
  - Maximum Average Cost per Location
  - Minimum 10/1 M Location Upgrade Count
- Our analysis will demonstrate that each of the ñInvoluntary Disqualificationò methods are inferior to methods that decrease the per location funding cap

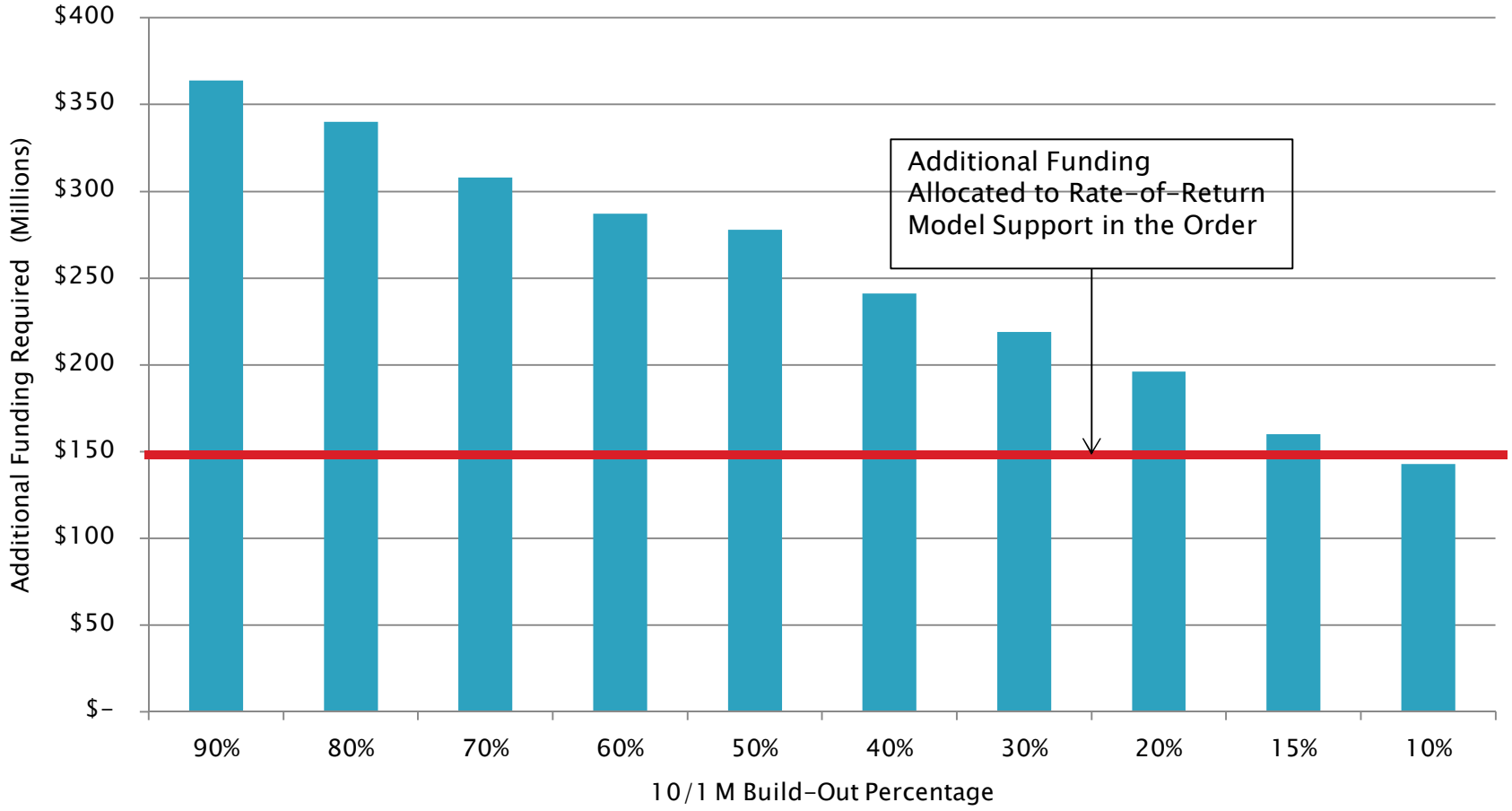
Involuntary Disqualification Methods Are Unfair and Produce Bad Policy Results

- Each measure to ñprioritize among electing carriersò cited in the Public Notice has specific problems:

Method	Undesirable Policy Outcome
Maximum 10/1 M Buildout Percentage	The maximum build-out percentage must be really low to meet the budget and one-quarter of the locations are in just two holding companies
Maximum Average Cost per Location	Creates geographic inequities and lower location counts
Minimum 10/1 M Location Upgrade Count	Significantly lower location counts, few companies are eligible, and leaves high-cost areas unfunded

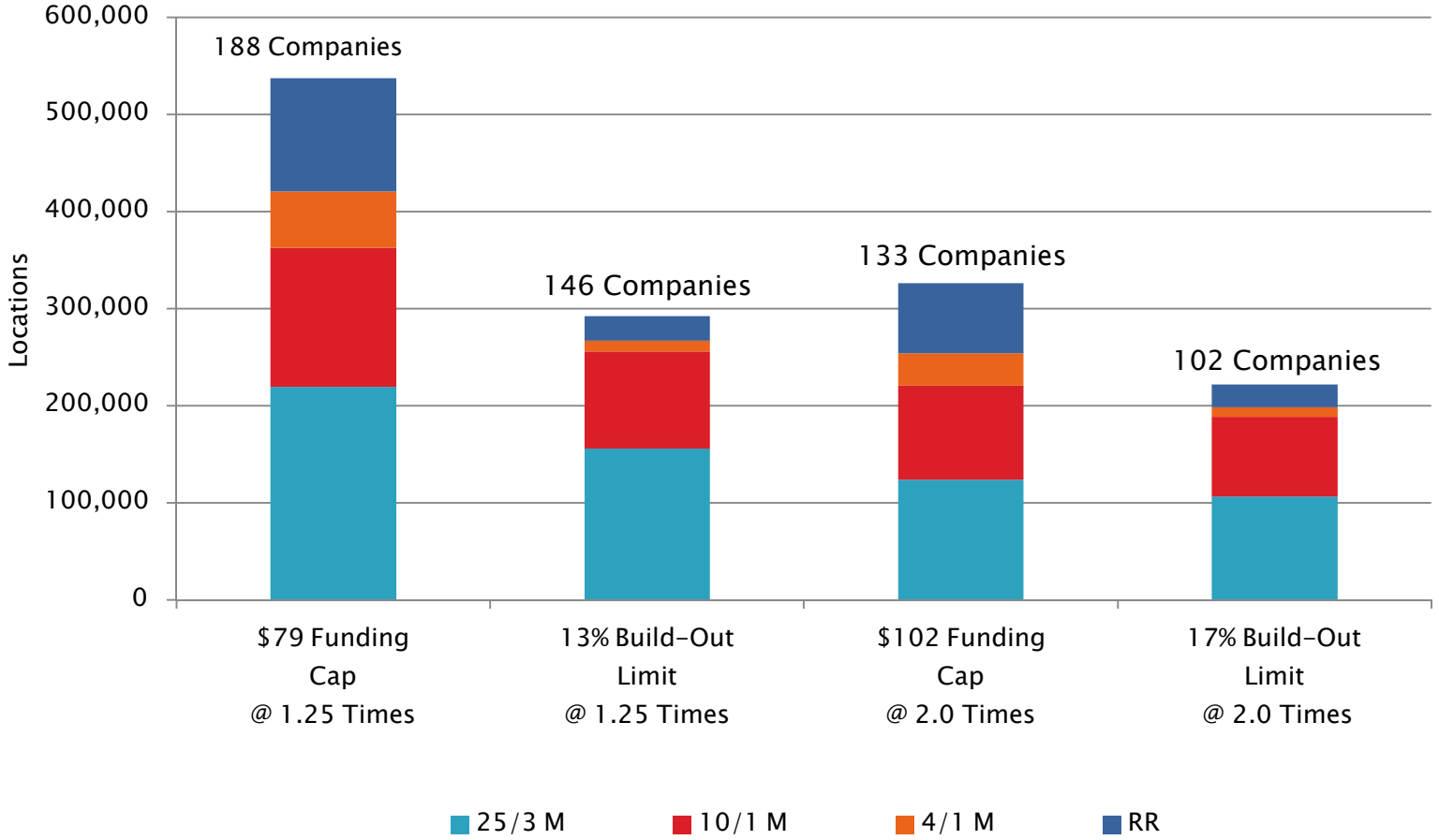
- In addition to the flaws above, eliminating companies that already elected model support would be viewed as unfair, illogical and untimely
- Another Order would be required to reduce the maximum 10/1 M build-out percentage from 90%
- Support dollars would not be removed from the Legacy budget (FN 141) since the FCC would be changing the rules instead of the company opting out

The 90% Build-Out Percentage Would Need to be 13% to Meet the Budget



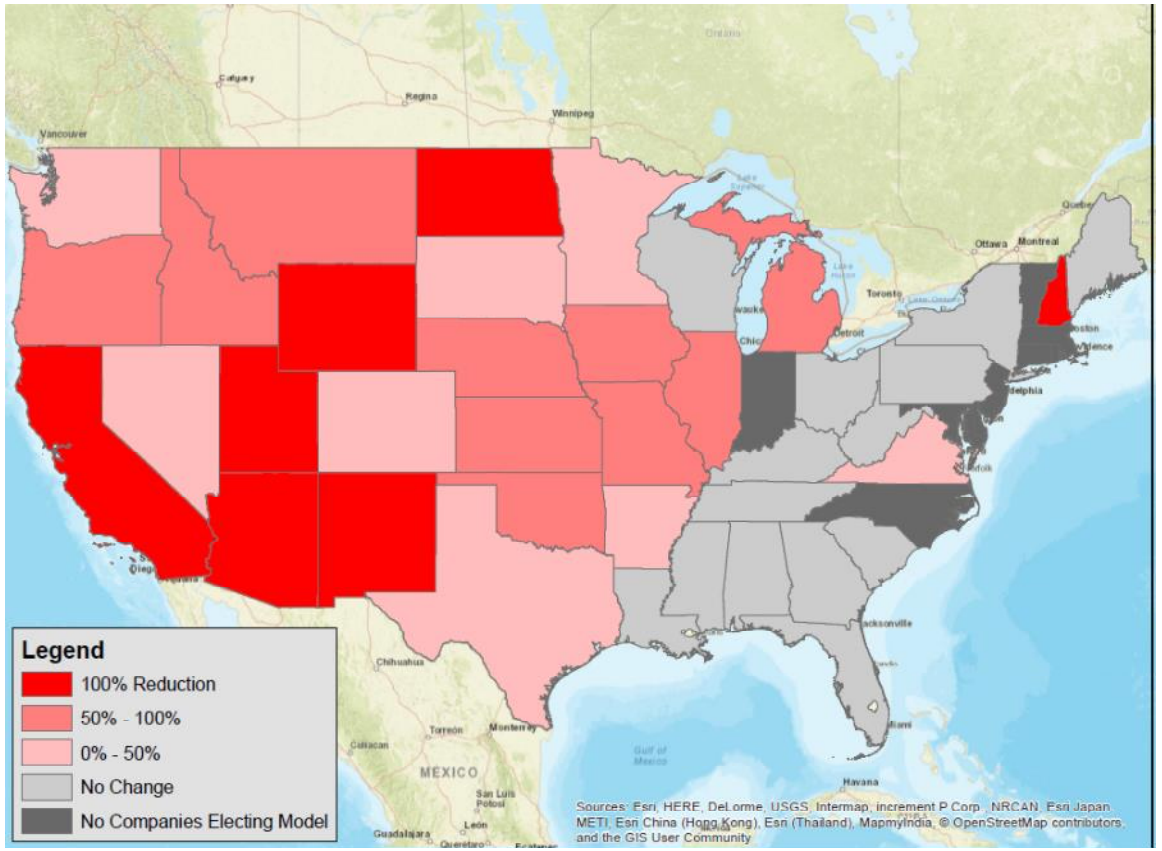
Assumes companies opt for model if model support is 1.25 times legacy

The Maximum Build-Out Percentage Required to Meet the Budget Results in Significantly Lower Location Counts

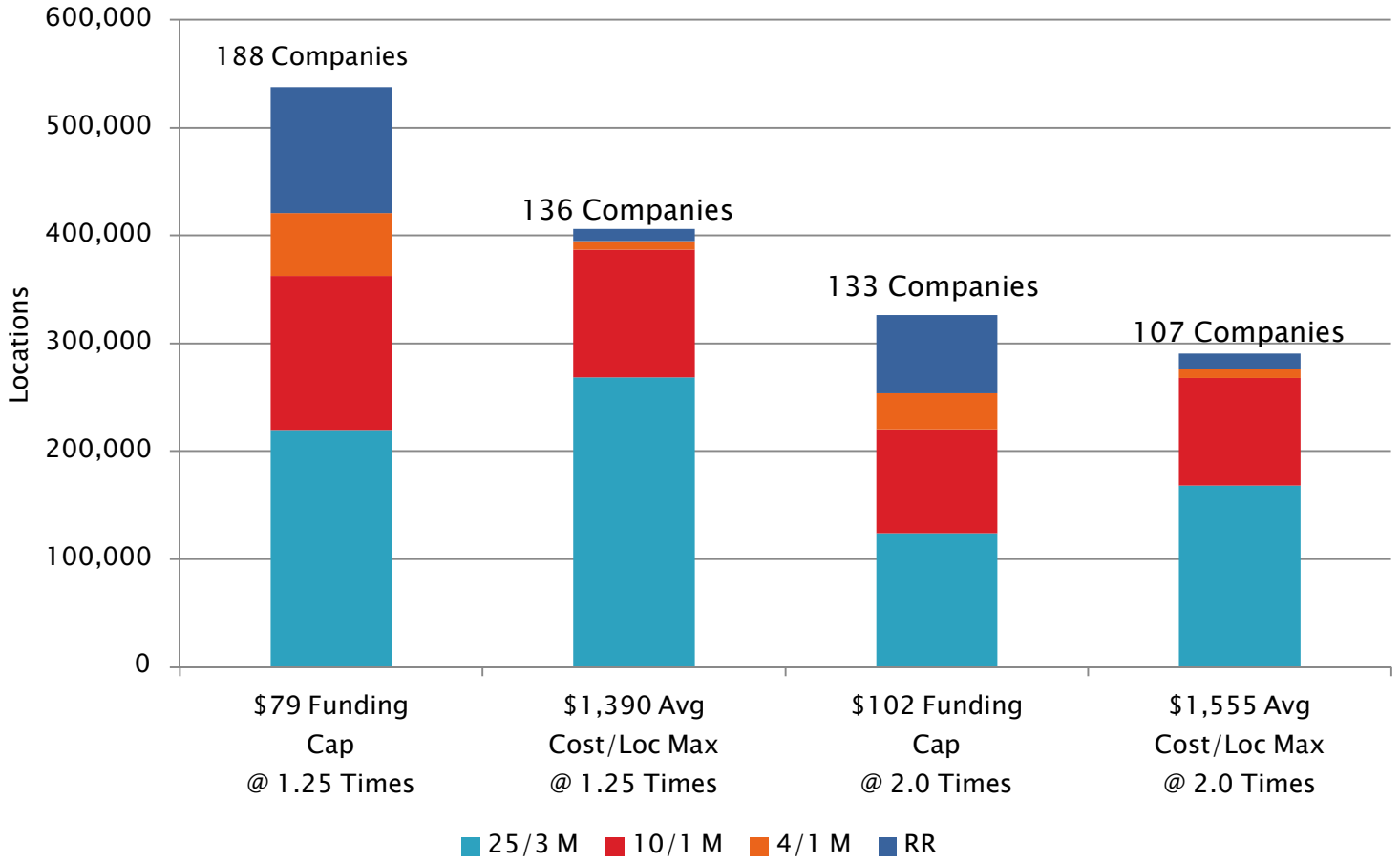


Average Cost/Location Disqualification Eliminates the Model Option for Western States

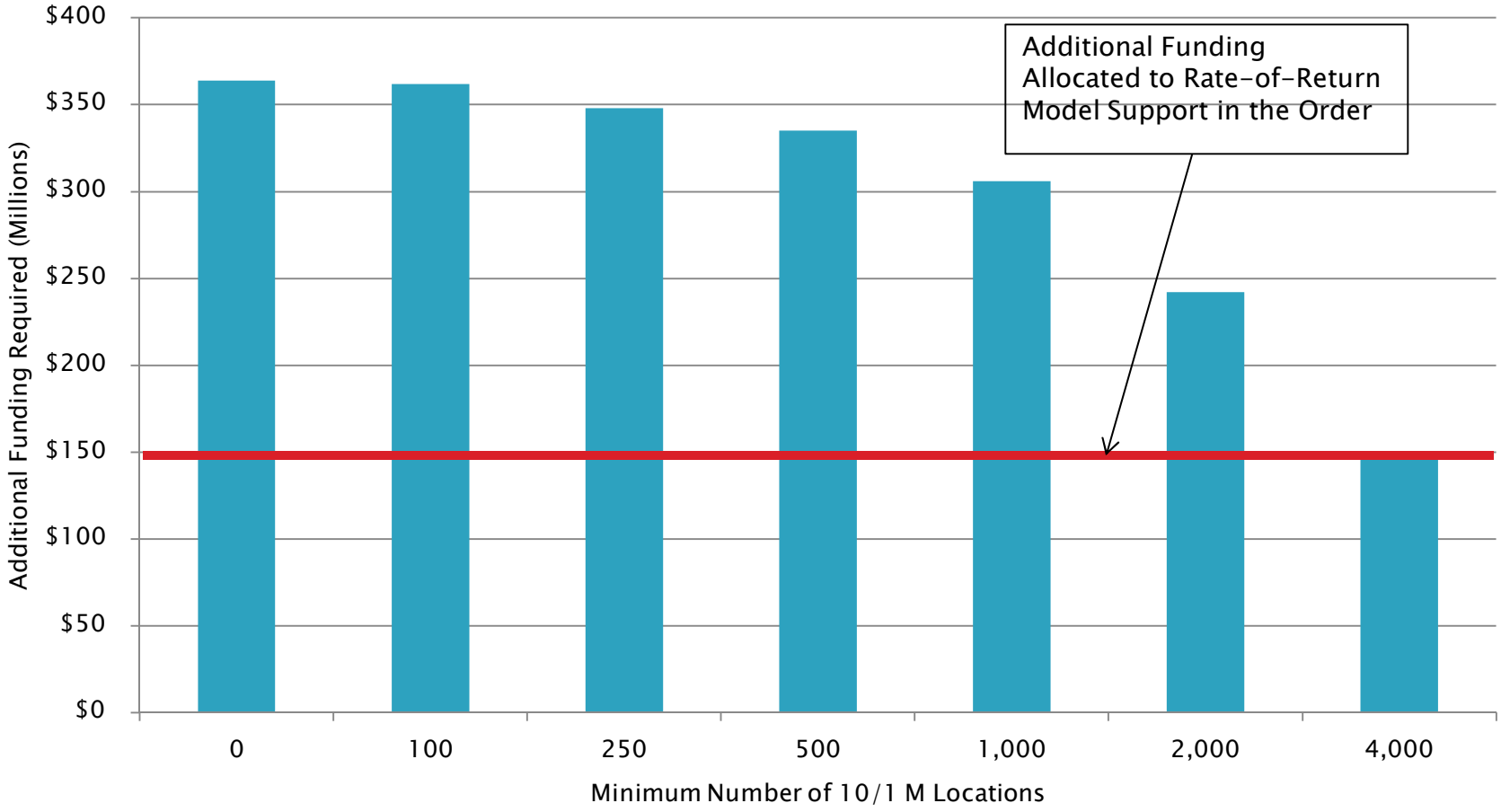
- Map shows the change in locations that would receive model-based support
- An average cost/location disqualification discriminates against a large portion of the country
- High-Cost universal service was intended to provide support to rural, high-cost and insular areas
- Overwhelmingly, companies affected by this disqualification are located west of the Mississippi River



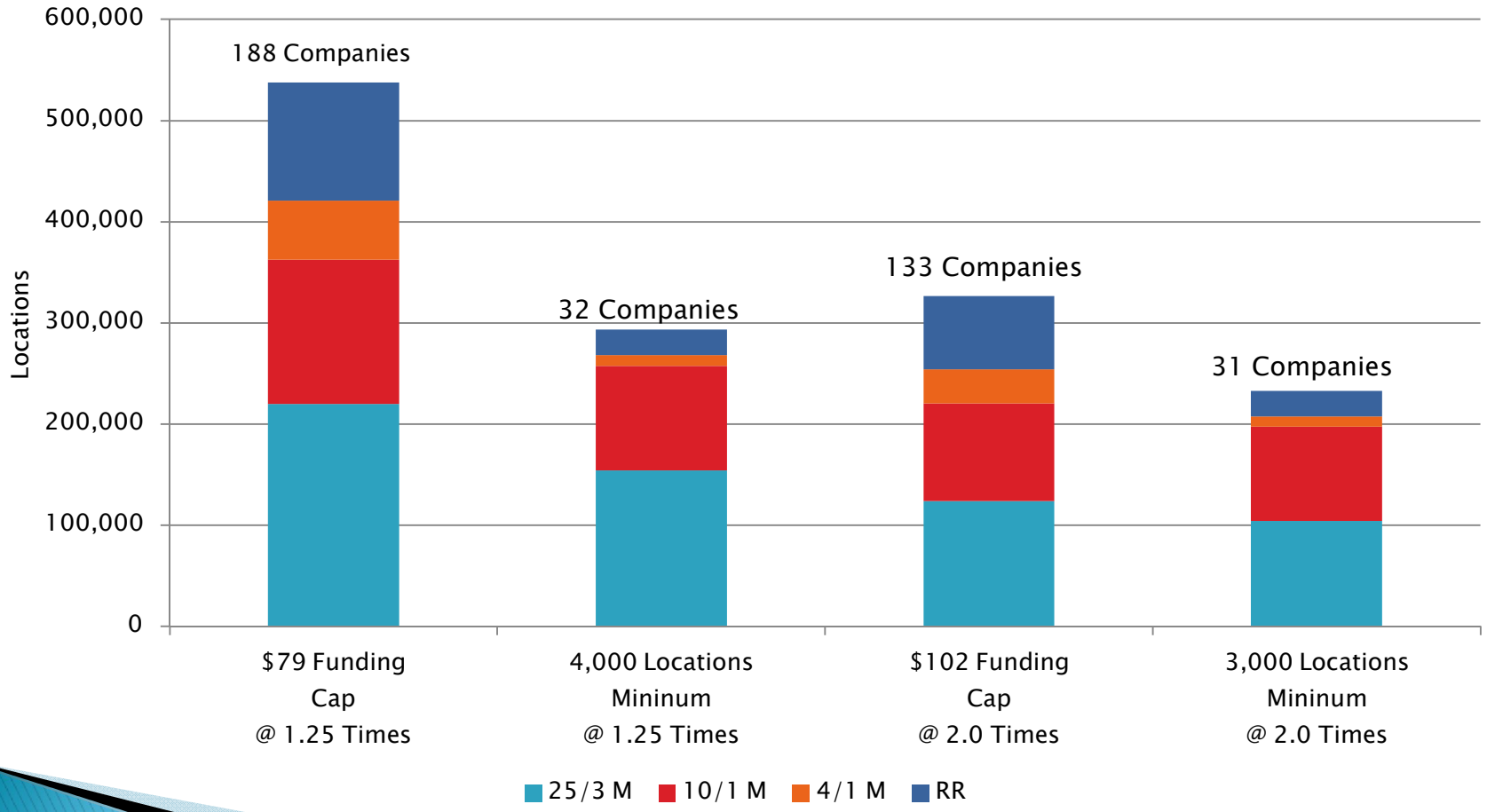
An Average Cost Disqualification Also Results in Lower Location Counts



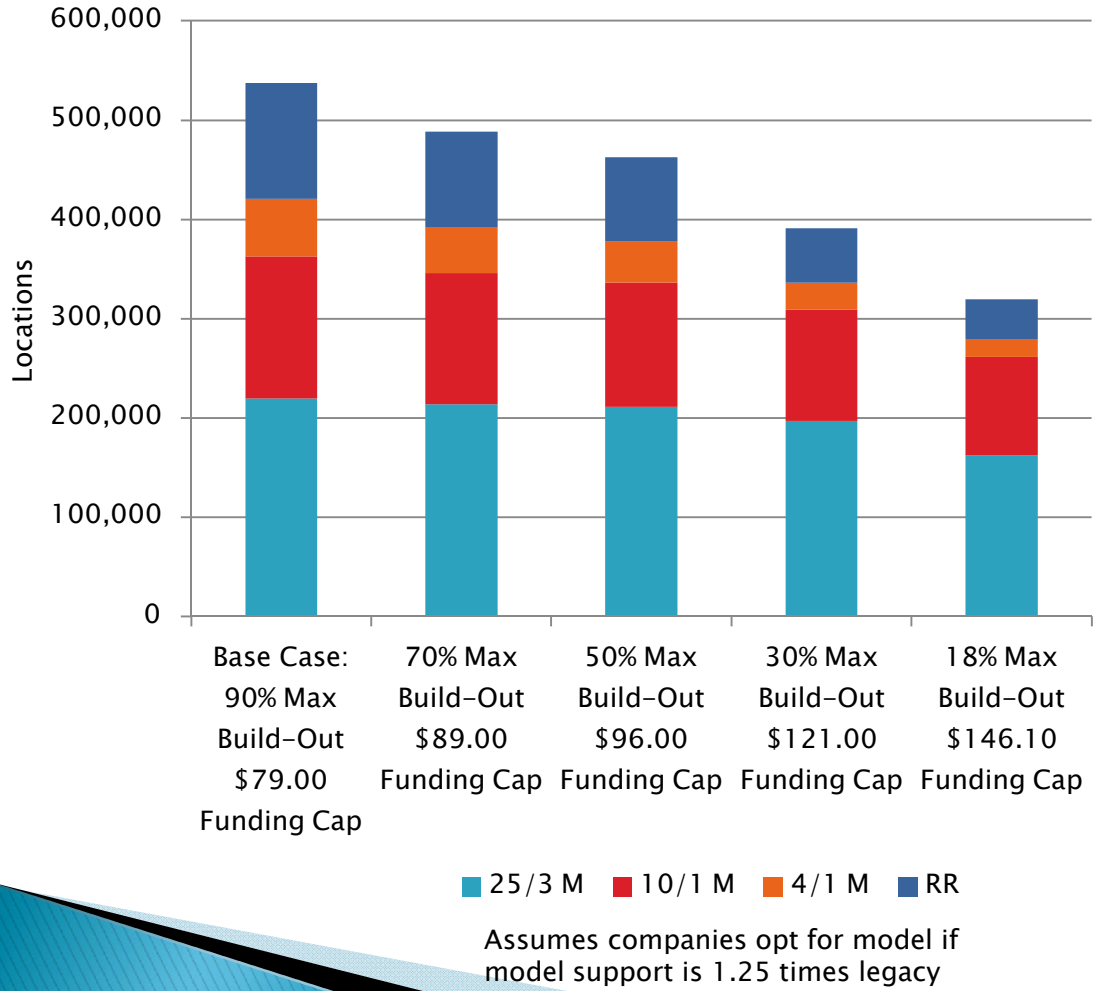
The Minimum 10/1 Mbps Location Count Would Need to Be 4,000 to Meet the Budget



A Minimum Location Disqualification Results in Significantly Lower Location & Company Counts



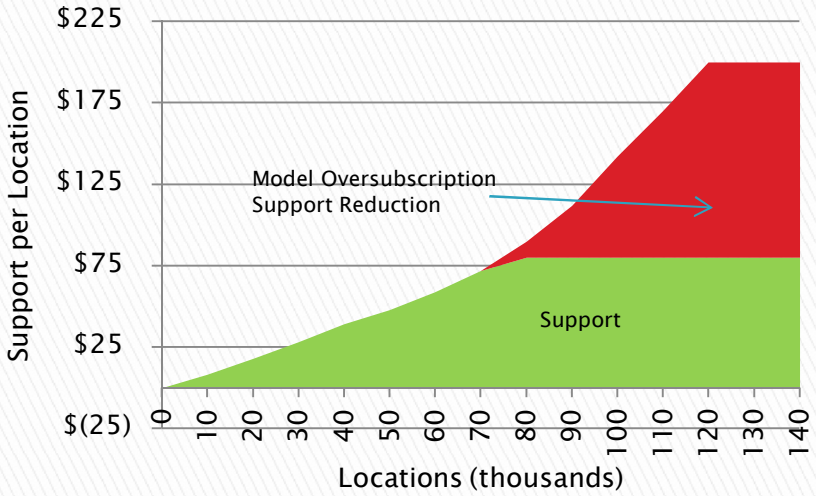
Hybrid "Involuntary Disqualification" Methods Suffer from the Same Policy Flaws



- The base case (90% build-out maximum and decreasing the funding cap to $79) accomplishes build-out to more locations than hybrid methods
- Involuntary disqualification would be viewed as unfair to companies that already elected model support under the current parameters
- Each of these changes could or would delay model implementation

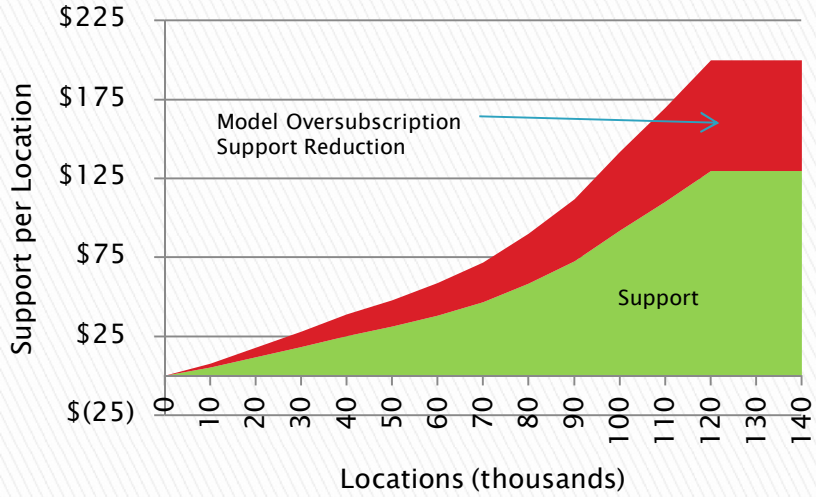
A Proportional Reduction (Haircut) Spreads the Budget Reductions Across All Carriers

Reduction in Per Location Cap



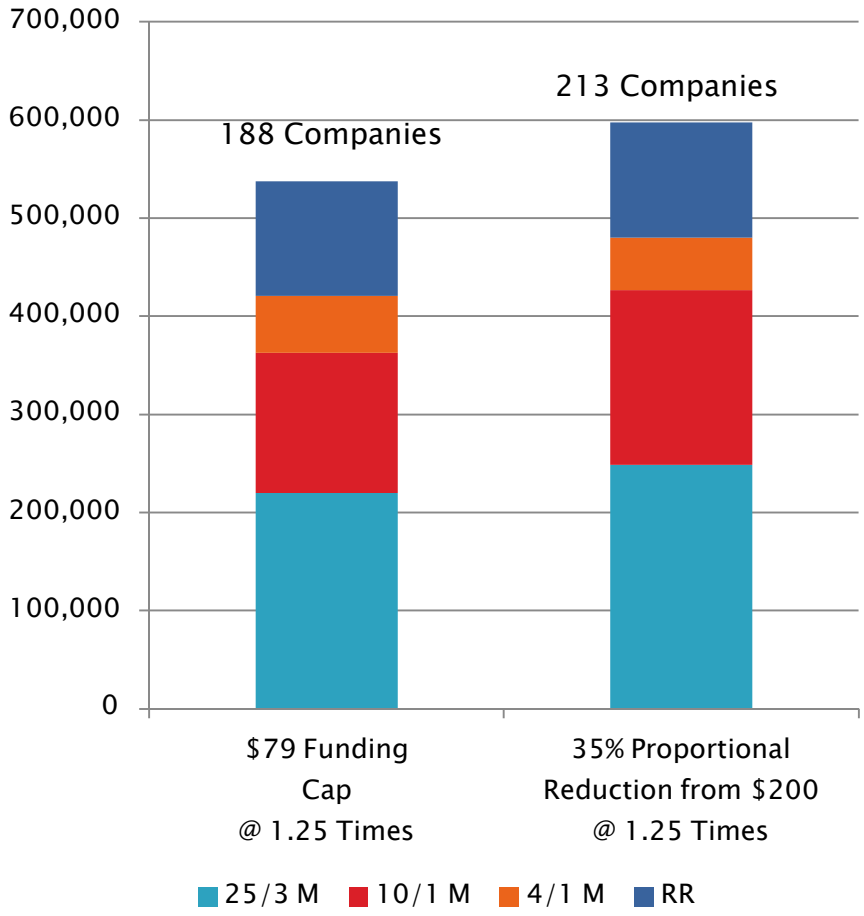
- This method causes the higher-cost locations to be most affected
- Low-cost companies are minimally affected
- All companies have the same maximum funding cap

Proportional Reduction Method



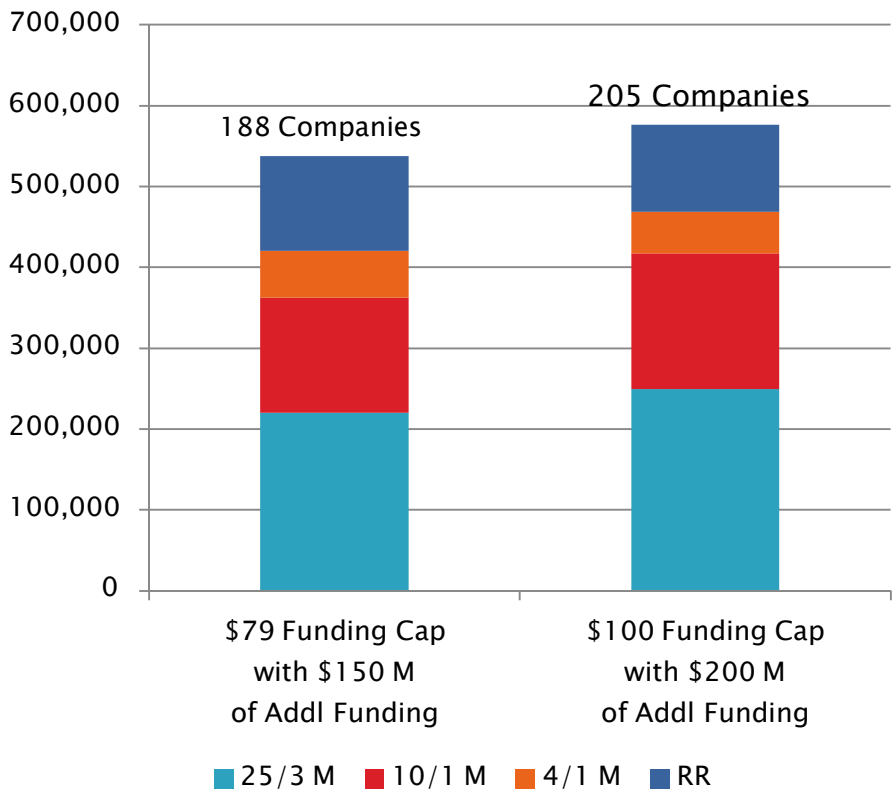
- This method is fairer because all locations will see a reduction in support
- A high-cost companyôs average support per location will be higher under this method
- Each companyôs maximum funding cap would be different

The Proportional Reduction Method Results in More Locations Being Built



- Under the Proportional Reduction method, the average support level will be higher for higher-cost companies, which may be closer to the PC level EHCT of $146.10
- The Proportional Reduction method spreads the budget reduction across all companies, not just high-cost ones; thus, more high-cost companies will opt for model support
- Neither method requires an Order change because the Order did not specify how the per location funding cap would be calculated
- The FCC must recalculate support amounts and build-out obligations under either option, but this should not delay implementation

Quantifiable Broadband Deployment Will Result from Additional Funding



- $50 M represents just 0.64% of total universal service funding
- Additional funding will help ensure that rate-of-return reform increases broadband deployment, moves more companies from legacy to incentive regulation and benefits all parts of the country

Assumes companies will opt for model at 1.25 times legacy support

Recommendations

- The ñInvoluntary Disqualificationò methods are unfair, result in fewer locations being built to, and create geographic inequities
- One of the funding level decrease methods, either Maximum Funding Cap or Proportional Reduction, should be used to meet the budget
  - More rural locations will be served with some speed of broadband
  - More companies will remain on the model and move away from legacy support
  - More equitably spreads the opportunity to opt for model support geographically across the country
  - More equitably allocates limited resources
- An extra $50 M will increase the number of locations and is an insignificant portion of the universal service budget